

VZCZCXRO3818

PP RUEHAG RUEHAST RUEHBI RUEHCI RUEHDF RUEHIK RUEHLH RUEHLD RUEHLZ

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DE RUEHAA #0007 0031127

ZNR UUUUU ZZH

P 031127Z JAN 08

FM AMEMBASSY ASHGABAT

TO RUEHC/SECSTATE WASHDC PRIORITY 9974

INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE PRIORITY

RUCNCIS/CIS COLLECTIVE PRIORITY

RUCNMEM/EU MEMBER STATES COLLECTIVE PRIORITY

RUEHAK/AMEMBASSY ANKARA PRIORITY 3181

RUEHBJ/AMEMBASSY BEIJING PRIORITY 0996

RUEHKO/AMEMBASSY TOKYO PRIORITY 0870

RUEHIT/AMCONSUL ISTANBUL PRIORITY 1444

RUEATRS/DEPT OF TREASURY WASHDC PRIORITY

RHMFIUU/CDR USCENTCOM MACDILL AFB FL PRIORITY

RUEAIIA/CIA WASHDC PRIORITY

RHEFDIA/DIA WASHDC PRIORITY

RUEKJCS/JOINT STAFF WASHDC PRIORITY

RHEHNSC/NSC WASHDC PRIORITY

RUEKJCS/SECDEF WASHDC PRIORITY

RUCPDOC/DEPT OF COMMERCE WASHDC PRIORITY

RHEBAAA/DEPT OF ENERGY WASHDC PRIORITY

UNCLAS ASHGABAT 000007

SIPDIS

SENSITIVE

SIPDIS

STATE FOR SCA/CEN, EEB

PLEASE PASS TO USTDA DAN STEIN

ENERGY FOR EKIMOFF/THOMPSON

COMMERCE FOR HUEPER

E.O. 12958: N/A

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SUBJECT: TURKMENISTAN PLAYING HARDBALL WITH IRAN OVER GAS PRICES

¶1. (U) Sensitive but unclassified. Not for public Internet.

¶2. (U) Now that Turkmenistan has reached agreement with the China National Petroleum Company and Gazprom on new prices for its natural gas, Turkmenistan has turned its focus to Iran, to which it sells approximately 8 billion cubic meters of gas per year at a price of \$65 per thousand cubic meters (tcm) of gas. This price is substantially below the price of \$130 per tcm that Gazprom has agreed to pay in the first half of 2008 and \$150 per tcm that it will pay effective July 1. An Iranian delegation arrived in Ashgabat on December 28 to begin negotiations, and by January 2 there were press reports that Turkmenistan stopped transporting gas to northern Iran via the Korpeje-to-Kurt-Kui pipeline. According to a press release issued by Turkmenistan's Ministry of Foreign Affairs, Turkmenistan temporarily halted the flow of gas to Iran in order to carry out preventive repair work on the pipeline. The Iranian-based ISNA news agency reported that Iranian officials are insisting that the price they negotiated last year should continue to apply in 2008.

¶3. (SBU) There are no indications as yet that this stoppage has affected the flow of the approximately 400,000 tons of liquified petroleum gas (LPG) that Turkmenistan's state firms sell per year to Iran. These deals, which are made primarily with Iranian businessmen and which exist in part as repayment for Iranian construction of LPG terminal and tank farm facilities in Turkmenistan, are made at prices closely linked to the Platts price.

¶4. (SBU) COMMENT: Post believes the pipeline stoppage is a hardball effort to pressure the Iranian government into agreeing to a price increase. Turning off pipelines for "temporary repairs" is a strategy that Turkmenistan has used in the past -- most recently during its 2006 negotiations

with Gazprom to raise gas payments from \$65 to \$100 per tcm. Further strengthening this argument is the fact that the Korpeje-to-Kurt-Kui pipeline is relatively new (it was only commissioned in December 1997), making the claims of needed repairs somewhat suspect. While posturing by both sides seems to be in full swing at this point, neither can afford a long-term stoppage. Iranians in the north rely on Turkmenistani gas for winter heat, and Turkmenistan needs all the hydrocarbon revenue it can get to fund its ongoing construction and development programs.

HOAGLAND